

Message Text

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TO AMEMBASSY MOSCOW

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E.O. 11652: N/A

TAGS: EEWT, UR

SUBJECT: SOVIET CONTRACT CLAUSE REQUIRING INGOSSTRAKH
INSURANCE COVERAGE

REF: MOSCOW 05845

1. CLAUSE REFERRED TO IN REFTEL DOES APPEAR TO BE A PARTICULAR PROBLEM IN DEALING WITH MASHINOIMPORT. A CHECK OF OUR FILES REVEALS THAT MAJORITY OF MASHINOIMPORT CONTRACTS FROM 1972 ON CONTAIN SUCH A CLAUSE. NOTABLE EXCEPTIONS ARE FIRST REDA PUMP CONTRACT FOR SUBMERSIBLE PUMPS, PERRY EQUIPMENT CONTRACTS FOR ORENBURG PIPELINE PIGS, AND MERRICK ENGINEERING CONTRACT THAT CALLED FOR AIR SHIPMENT TO SHEREMETYEVO. SIMILARLY, MOST METALLURGIMPORT AND STANKOIMPORT CONTRACTS IN OUR POSSESSION CONTAIN THE SAME CLAUSE. TECHMASHIMPORT, TECHNOPROMIMPORT, AND PROMMASHIMPORT CONTRACTS ARE MIXED, WITH SOME HAVING THE LIMITED OFFICIAL USE

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CLAUSE DELETED. THE FEW TRAKTOROEXPORT CONTRACTS IN OUR FILES DO NOT INCLUDE SUCH A CLAUSE, NOR DO OUR LICENSINTORG EQUIPMENT PURCHASE CONTRACTS. ELEKTRONORGTEKHNIKA CONTRACTS (FOR COMPUTERS, ETC.) ARE A

SPECIAL CASE, SINCE THEY OFTEN CALL FOR DELIVERY CIF WITH SHIPMENT BY AIR.

2. IN THE PAST, COMPANIES HAVE TOLD US THAT THEY COMMONLY ACCEPT THE FTO CLAUSE, AND "DOUBLE INSURE" THE GOODS, AS SUGGESTED BY O'HARA. SOMETIMES, COMPANIES HAVE CONVINCED THE SOVIETS THAT SUCH "DOUBLE COVERAGE" ENDS UP COSTING THE SOVIETS MORE, AND HAVE GOTTEN THEM TO AGREE TO DELETE THE CLAUSE ON THAT BASIS. AS REFTEL INDICATES, TO THE EXTENT COMPANIES CAN GET AWAY WITH BUILDING ADDITIONAL COST OF "DOUBLE COVERAGE" INTO CONTRACT PRICE, THERE IS NO LOSS TO COMPANIES OR TO U.S. INSURERS. WHERE THE ADDITIONAL COST MAKES THE COMPANY NON-COMPETITIVE PRICEWISE, OR WHERE THE COMPANY STANDS ON PRINCIPLE, AS DID ARMCO, THE CLAUSE DOES WORK A DISADVANTAGE ON THE COMPANY.

3. FYI. G.E. CORPORATE COUNSEL COMMENTED THAT G.E. GENERALLY ACCEPTS THIS CLAUSE, AND "DOUBLE INSURES". HE ACKNOWLEDGED THAT THE .075 IS CONSIDERED HIGH, AND THAT THE COST OF "DOUBLE COVERAGE" COULD BE COMMERCIALY DAMAGING. ON THE OTHER HAND, HE POINTED OUT THAT THERE IS SOMETHING TO BE SAID FOR HAVING ONE CARRIER CARRY THE WHOLE RISK DURING TRANSIT, SINCE DIVIDED RISK IS LIKELY TO LEAD TO DISPUTES BETWEEN THE CARRIERS. FROM THE STANDPOINT OF U.S. SELLERS, A KEY ISSUE (SO FAR UNADDRESSED) MAY BE - HOW GOOD IS INGOSSTRAKH AT SETTLING CLAIMS. COOPER
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